

Tennessee Wildlife Resources Agency

**For the Years Ended
June 30, 1998, and June 30, 1997**

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August 4, 1999

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Gary Myers, Executive Director

Tennessee Wildlife Resources Agency

Ellington Agricultural Center

Nashville, Tennessee 37204

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Wildlife Resources Agency for the years ended June 30, 1998, and June 30, 1997.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Tennessee Wildlife Resources Agency's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Tennessee Wildlife Resources Agency is responsible for establishing and maintaining the internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The agency's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the agency's internal controls and/or instances of noncompliance to the Tennessee Wildlife Resources Agency's management in a separate letter.

Sincerely,

John G. Morgan

Comptroller of the Treasury

JGM/km

99/082

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Wildlife Resources Agency
For the Years Ended June 30, 1998, and June 30, 1997

AUDIT SCOPE

We have audited the Tennessee Wildlife Resources Agency for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of licenses, fees, and donations; equipment; the annual financial report; the financial integrity act; utilization of the STARS grant module; and undercover operations. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

Insufficient Controls Over Cash Receipts*

Cash-receipting functions are not centralized; checks are not always restrictively endorsed immediately upon receipt; written receipts or a detailed control list of money received is not prepared upon receipt of money; and cash-receipting duties are not adequately segregated. Because of these weaknesses, cash could be lost or misplaced, and the loss could remain undetected (page 4).

Noncompliance With Procedures Governing Third-Party License Sales Agent*

Third-party license sales agents were not always assessed penalties in accordance with the law (page 6).

Improvement Needed in Controls Over Equipment

Information on the Property of the State of Tennessee was not always correct and state tags were not always permanently affixed to the equipment (page 7).

* This finding is repeated from prior audits.

Audit Report
Tennessee Wildlife Resources Agency
For the Years Ended June 30, 1998, and June 30, 1997

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Tennessee Wildlife Resources Agency

For the Years Ended June 30, 1998, and June 30, 1997

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Wildlife Resources Agency. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The mission of the Tennessee Wildlife Resources Agency (TWRA) is to preserve, conserve, manage, protect, and enhance the state’s wildlife and the environment for the use, benefit, and enjoyment of the people of this state and its visitors. TWRA also manages certain nongame wildlife to ensure their continuation. Additionally, the agency is responsible for promoting boating safety in Tennessee.

In order to fulfill its mission, the agency is governed by the Tennessee Wildlife Resources Commission. The 13-member commission consists of the Commissioners of Conservation and Environment, the Commissioner of Agriculture, nine members appointed by the Governor, one member appointed by the Speaker of the House, and one member appointed by the Speaker of the Senate. Daily operations are performed through two primary areas: staff operations and field operations. The major functions of TWRA include law enforcement; operation of lakes, hatcheries, and management areas; information/education; boating and hunter safety; public information; and habitat protection.

TWRA is self-supporting, financed by revenues from the sale of hunting and fishing licenses, boating and other permits, and fines assessed for the violation of game and fish laws. The agency also receives an apportionment of federal taxes levied on the sale of hunting and fishing equipment under the provisions of the Federal Aid in Wildlife Restoration and Federal Aid in Sport Fish Restoration Acts.

The Tennessee Wildlife Resources Agency and Boating Safety each operate with a revolving fund. The reserve account balances are amounts of revenues exceeding expenditures. The balances are carried forward every year in the reserve accounts and do not revert to the general fund.

An organization chart of the agency is on the following page.

AUDIT SCOPE

We have audited the Tennessee Wildlife Resources Agency for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of licenses, fees, and donations; equipment; the annual financial report; the financial integrity act; utilization of the STARS grant module; and undercover operations. The audit was conducted in accordance with generally accepted government auditing standards.

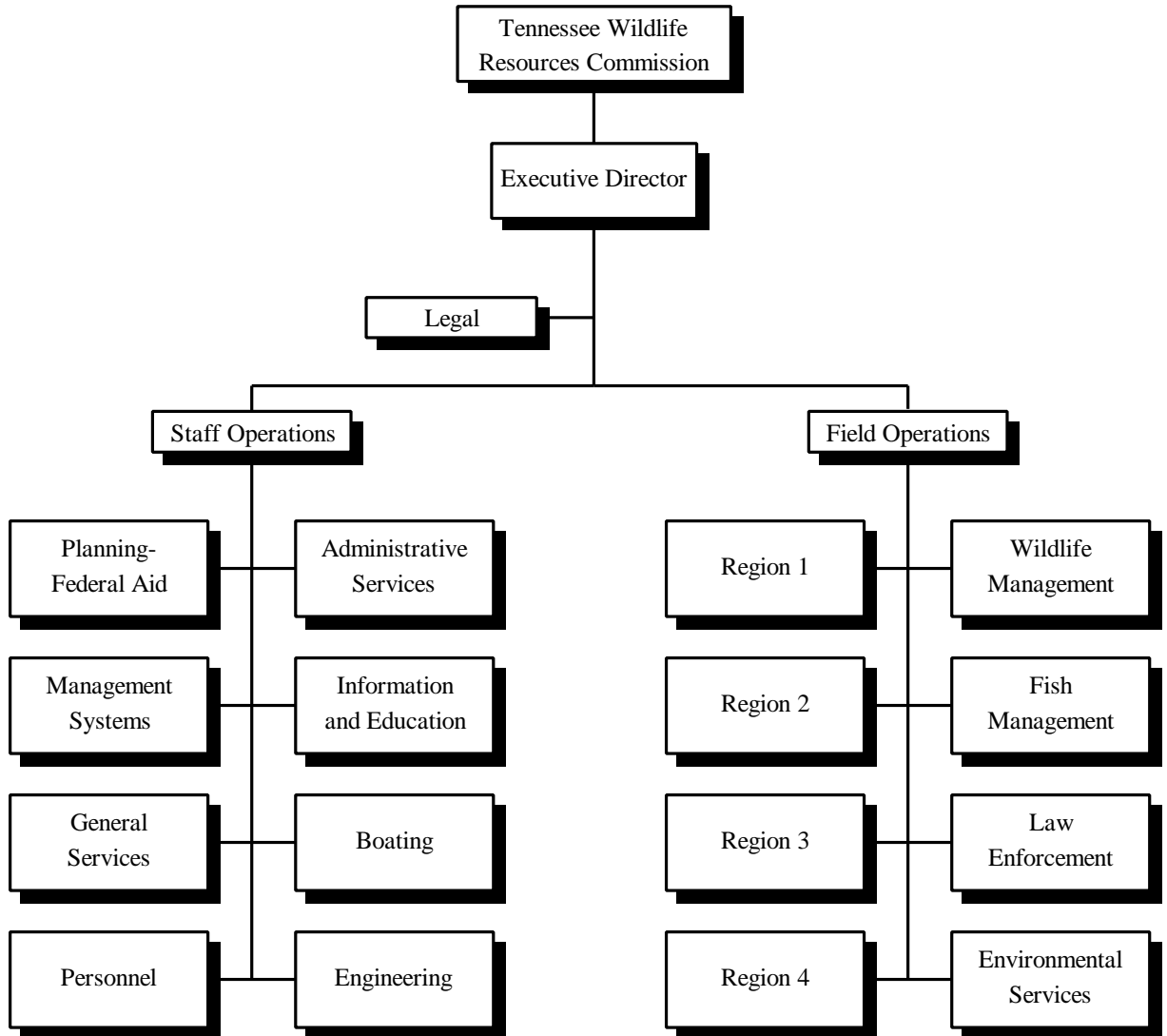
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

LICENSES, FEES, AND DONATIONS

The objectives of our review of the licenses, fees, and donations controls and procedures were to determine whether

- controls over revenue received by the agency were adequate;
- certain licenses and boat registrations were issued in accordance with state law, and that the proper amount of revenue was collected;
- donations received were properly recorded and deposited timely;
- license sales agents were properly bonded, reporting sales of licenses in accordance with state law, and remitting funds in a timely manner;
- penalties were properly assessed for license sales agents who were delinquent in reporting sales and remitting funds; and
- the prior audit finding concerning cash receipts had been corrected.

TENNESSEE WILDLIFE RESOURCES AGENCY ORGANIZATION CHART



We interviewed key personnel to obtain an understanding of the agency's controls and procedures governing revenue, licenses sold, boat registrations, donations, and sales of licenses by license sales agents. We also reviewed supporting documentation for these controls and procedures. Furthermore, we tested samples of license sales agents to determine whether applications and the proper bonds were on file, whether reports and applicable revenue were returned to the agency in accordance with state law, and, if applicable, whether penalties were assessed in the proper amount. We also selected a sample of boat registrations to determine whether the proper fees were collected, whether all applicable information was completed by the boat owners, and whether the funds remitted were deposited in a timely manner. Certain other licenses were sampled to determine if the fees were collected in accordance with state law and deposited in a timely manner. Also, a sample of donations was tested to determine if the funds were properly recorded and timely deposited. While we found that certain controls and procedures were adequate, controls over cash receipts continue to be inadequate and license sales agents were not always assessed penalties in accordance with state law. In addition to the findings listed below, other minor weaknesses came to our attention and have been reported to management in a separate letter.

1. For the nineteenth consecutive year, the agency failed to implement sufficient controls over cash receipts

Finding

As noted in the nine previous audits, internal controls over the receipt of cash are inadequate. Money for various licenses, permits, subscriptions, and other services, as well as donations, is received in ten locations in the Nashville office. Cash-receipting functions are not centralized; checks are not always restrictively endorsed immediately upon receipt; written receipts or a detailed control list of money received is not prepared upon receipt of money; receipts are not always deposited in a timely manner; and cash-receipting duties are not adequately segregated. In response to the prior audit finding, management concurred with the finding and stated that, as part of an expansion of the Nashville Office, a central receipting office would be created where funds received in the mail would be receipted immediately and deposited timely. Construction on the expansion has started, and management has created a central receipting office and is working toward full implementation of that office. The following weaknesses were noted:

- Mail received in the Nashville office is opened and sorted in the mailroom and distributed to the various divisions. Mailroom personnel do not restrictively endorse checks immediately and do not prepare a list of checks received. Although the Licensing Division and a few other offices restrictively endorse checks as soon as they are received, the Boating and Managed Hunts Divisions do not restrictively endorse checks until the applications have been processed. Checks received in the Personnel and Attorney's Offices are not restrictively endorsed until the funds have been delivered to the Licensing Division to be processed for deposit.

- The Information Desk and Personnel and Real Estate Offices did not prepare receipts or control listings at the time of receipt. As a result, timeliness of deposits could not be tested. Moreover, without such documentation, management cannot determine the amount of money received at any given time.
- Cash-receipting duties were not adequately segregated in the Boating, Licensing, and Managed Hunts Divisions because at least one person in each division could open the mail, prepare the mail log, prepare the deposit, post to the ledger, and reconcile the supporting documentation with the State of Tennessee Accounting and Reporting System (STARS.)
- Deposits were not always made in a timely manner in the Managed Hunts Division with regard to the exception of the Department of Finance and Administration's Policy 25—Deposit Practices. This exception allows Managed Hunts no more than five business days to deposit the funds received on any given day during the periods July 17 - 31 and September 11 - 25.

Because cash-receipting functions have not been centralized and duties have not been adequately segregated, cash could be lost or misplaced, and the loss could remain undetected. In addition, because checks have not been endorsed at the earliest possible time, they could be stolen and cashed. If receipts are not written, the timeliness of deposit cannot be determined.

Recommendation

Management should implement procedures to strengthen controls over cash receipts. Management should consider the following items when reviewing their controls: cash receipting should be centralized; checks should be restrictively endorsed when received; written receipts or a control list of all money should be prepared detailing the date of receipt, the payor, the amount received, and the section to which the money will be distributed; control lists should be reconciled with deposits to ensure that all items received are accounted for and deposited; control lists should be retained as support for deposits; deposits should be made in a timely manner; and cash-receipting duties should be segregated.

Management's Comment

We concur. Management has begun creating the central receipting function. Even though the building will not be completed until early spring, a Cash Receipt Manager has been appointed and is deeply involved with the Agency's new automated license system. As soon as the facilities are complete and the receipting functions can be moved, all funds will be received, receipted, and deposited by the cash receipt office.

2. Compliance with procedures governing third-party license sales agents is inadequate

Finding

As noted in the previous audit, the Licensing Division has failed to follow its procedures and state law governing third-party license sales agents. The third-party license sales agents are businesses throughout the state that sell hunting and fishing licenses on a consignment basis. In response to the prior audit finding, management did not concur with the finding and stated that penalties were assessed as required. However, testwork revealed the following weaknesses:

- Three of 25 agents tested (12%) were not properly assessed a penalty on sales that were reported late, and 8 of 25 agents tested (32%) were not properly assessed a penalty on outstanding balances. *Tennessee Code Annotated*, Section 70-2-105 (b), requires all agents to submit “a detailed report covering all sales of licenses during the previous month.” This report is to be submitted on or before the fifteenth day of each month and is to be accompanied by all money owed. Also, *Tennessee Code Annotated*, Section 70-2-105 (d), requires that a 5% penalty be charged on “all funds owing and which were not remitted or paid over within the time prescribed by this section.” The time period referred to is “thirty (30) days after the report and remittance is due.” The Licensing Division did not always assess penalties on sales reports that were remitted late or on balances that remained outstanding after the allowable grace period.
- Nine of 25 agents tested (36%) were not assessed a penalty on unreturned prior year licenses as required by state law. *Tennessee Code Annotated*, Section 70-2-105 (c), states that on March 1 of each year, agents shall “return to the executive director all stubs and unused licenses with full settlement of the agent’s account for the year ending the last day of February.” The Licensing Division did not always assess the penalties on unreturned prior year licenses.

If the correct penalty is not assessed in accordance with *Tennessee Code Annotated*, Section 70-2-105, the agency has not complied with state law and funds owed to the state are not paid.

Recommendation

The executive director should reiterate to all third-party license sales agents that they have a responsibility to report sales and remit all money owed in accordance with state law. Also, the executive director should ensure that the proper penalty is assessed if an agent fails to remit all money owed or to return all licenses at year-end.

Management's Comment

We concur. The existing license system requires manual computation of penalties. The new automated system will not only collect funds sooner, but automatically determine when and what amount of penalty should be charged.

EQUIPMENT

The objectives of our review of equipment controls and procedures were to determine whether

- controls ensured that equipment was properly safeguarded and properly recorded on the equipment listing and in the accounting records, and
- equipment leased from the Office for Information Resources is inventoried on an annual basis and the results of that inventory are reported to the Department of Finance and Administration.

We interviewed key personnel to gain an understanding of the agency's controls and procedures for safeguarding and accounting for equipment including the physical inventory procedures. We also reviewed supporting documentation for these controls and procedures. Furthermore, we tested samples of equipment items and equipment payments. This involved locating the items and determining if items agreed by description, tag number, serial number, and location with the equipment listing. We also ensured that equipment recorded in accounting records was also recorded on the equipment listing. While we found that certain controls and procedures were adequate, some controls over equipment were considered to be inadequate. In addition to the finding listed below, other minor weaknesses come to our attention and have been reported to management in a separate letter.

3. Controls over equipment need improvement

Finding

Controls over equipment at Tennessee Wildlife Resources Agency (TWRA) were weak. A review of equipment at the agency revealed the following weaknesses:

- a. A state tag was not permanently affixed to 12 of 75 equipment items examined (16%).
- b. The serial number was not properly recorded on the Property of the State of Tennessee (POST) for 12 of 75 equipment items examined (16%).

- c. The custodian for six equipment items examined was incorrectly identified on POST. One of these items was assigned to an employee who had retired from TWRA.
- d. No documentation could be located related to an equipment item that had been lost/stolen.

The Department of General Services' *POST User Manual* provides uniform procedures for equipment additions, correction, and deletions. Failure to identify and record equipment weakens accountability over equipment and may result in the loss of equipment.

Recommendation

The property officer should strengthen controls over equipment by ensuring that all items are identified and tagged. The serial number and other information relevant to equipment and sensitive items should be properly reflected on POST. In addition, the Comptroller's Office should be promptly notified of all lost or stolen property.

Management's Comment

We concur. Emphasis will be placed on timely tagging of agency property. A loss report for the missing item will be forwarded to the Comptroller's Office.

ANNUAL FINANCIAL REPORT

Our work in this area consisted of determining whether the executive director had submitted an annual report to the governor and the wildlife commission as required by state law. We interviewed key personnel about this report and found that an annual report had been completed for the 1998 and 1997 fiscal years. We had no findings related to the annual financial report; however, other minor weaknesses come to our attention and have been reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

The objectives of our testwork were to determine whether

- the agency's report was filed in compliance with the Financial Integrity Act of 1983,
- procedures used in compiling information for the report were adequate,

- corrective actions have been implemented for weaknesses identified in the report, and
- the report was submitted in accordance with state law.

We interviewed the key employee responsible for compiling information for the report to gain an understanding of the procedures. We also reviewed the workbooks prepared by the staff and the report submitted to the Comptroller of the Treasury and the Department of Finance and Administration. We had no findings related to the Financial Integrity Act; however, other minor weaknesses come to our attention and have been reported to management in a separate letter.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, “RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES”

Department of Finance and Administration Policy 20 requires that state agencies whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal programs within 30 days of each month-end using an authorized redistribution method;
- the agency made drawdowns at least weekly using the applicable STARS reports;
- the agency negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the agency utilized the appropriate STARS reports as bases for preparing the Schedule of Expenditures of Federal Awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the agency’s procedures and controls concerning Policy 20. We had no findings related to Policy 20; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

UNDERCOVER OPERATIONS

The objectives of our review of undercover operations were to determine whether

- internal controls and procedures over distributing and receipting undercover funds were adequate,
- expenditures incurred for goods and services were identified and recorded,
- expenditures for goods and services were authorized and in accordance with budget and other regulations or requirements,
- expenditures for travel were identified and recorded,
- expenditures for travel were authorized and in accordance with the budget and other regulations or requirements,
- cash receipts were properly recorded in the fund ledger, and
- safeguards over cash receipts were adequate.

We interviewed key personnel to gain an understanding of the agency's controls and procedures related to undercover operations. We also reviewed supporting documentation for these controls and procedures. Furthermore, we tested a sample of disbursements made to undercover officers. This involved examining the support for the payment and determining that the support was in compliance with all applicable policies and procedures as well as any applicable state regulations. We had no findings related to undercover operations.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Tennessee Wildlife Resources Agency filed its report with the Department of Audit on October 19, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Tennessee Wildlife Resources Agency has corrected previous audit findings concerning maintaining supporting documentation, submitting an annual report, completing supporting documentation for the financial integrity report in a timely manner, and reporting employee malfeasance promptly.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning insufficient controls over cash receipts and compliance with procedures governing third-party license sales agents. These findings have not been resolved and are repeated in the applicable section of this report.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Tennessee Wildlife Resources Agency filed its compliance report and implementation plan on November 24, 1998, and July 10, 1997.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor has not designated a new monitoring agency for the Executive Branch.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report, *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

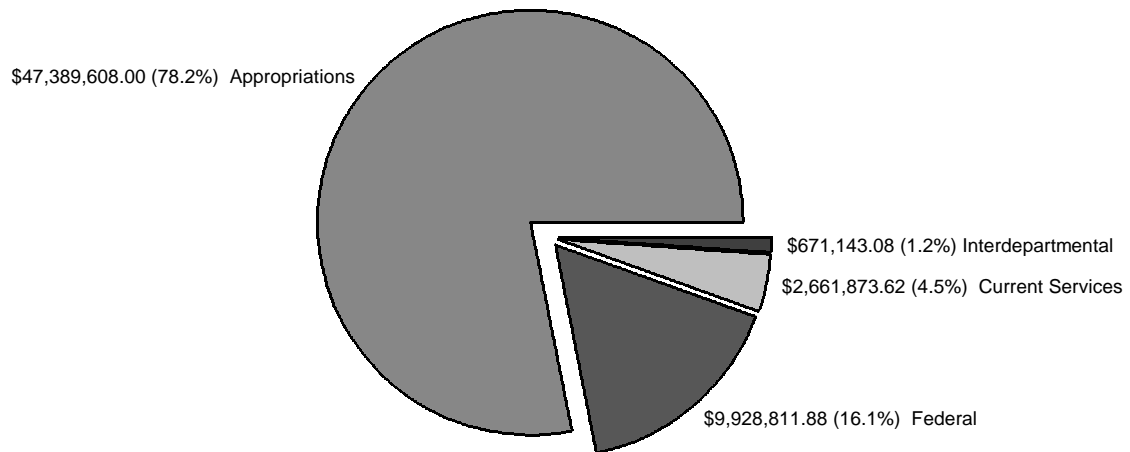
DIVISIONS AND ALLOTMENT CODES

Tennessee Wildlife Resources Agency divisions and allotment codes:

- 328.01 Tennessee Wildlife Resources Agency
- 328.02 Boating Safety Act
- 328.03 Wetlands Acquisition Fund
- 328.04 Wetlands Compensation Fund

Funding Sources

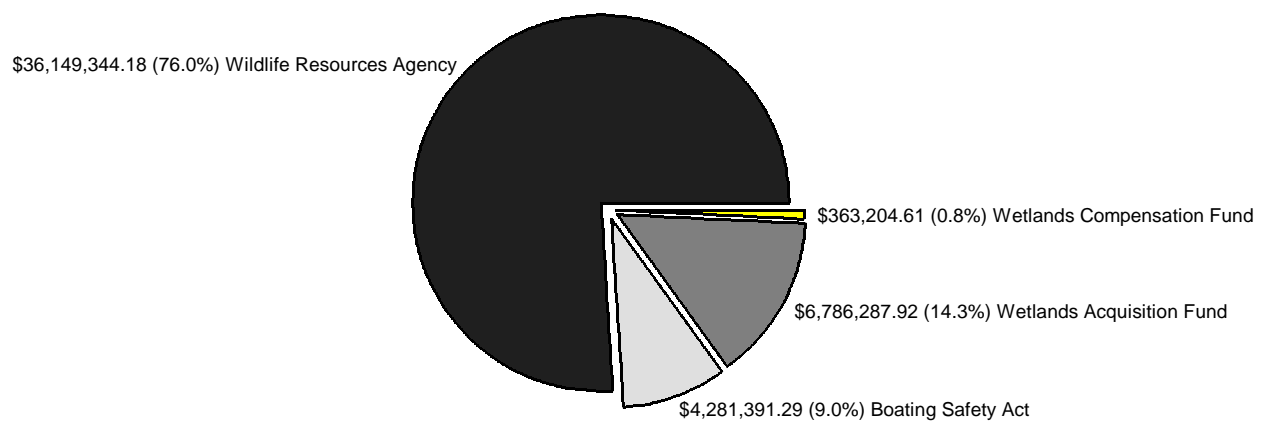
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Tennessee Wildlife Resources Agency

Expenditures by Allotment & Division

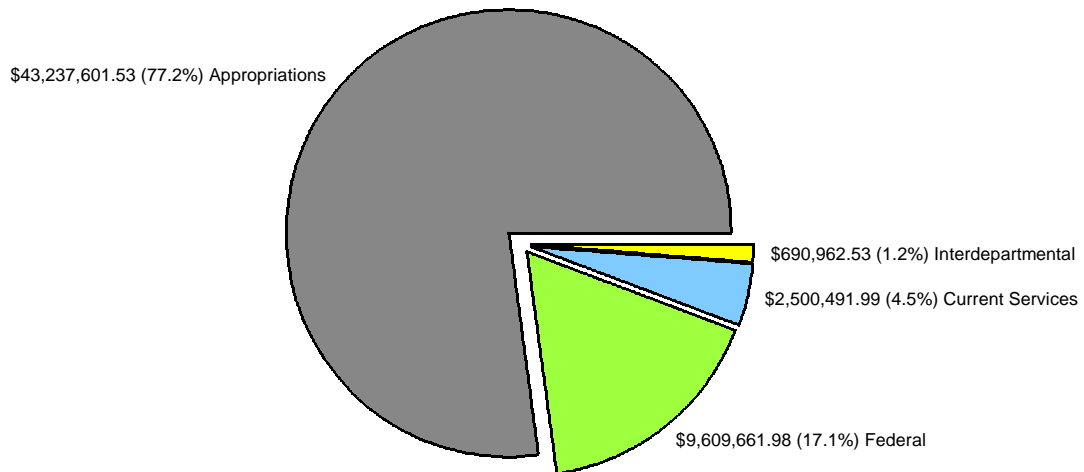
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Tennessee Wildlife Resources Agency

Funding Sources

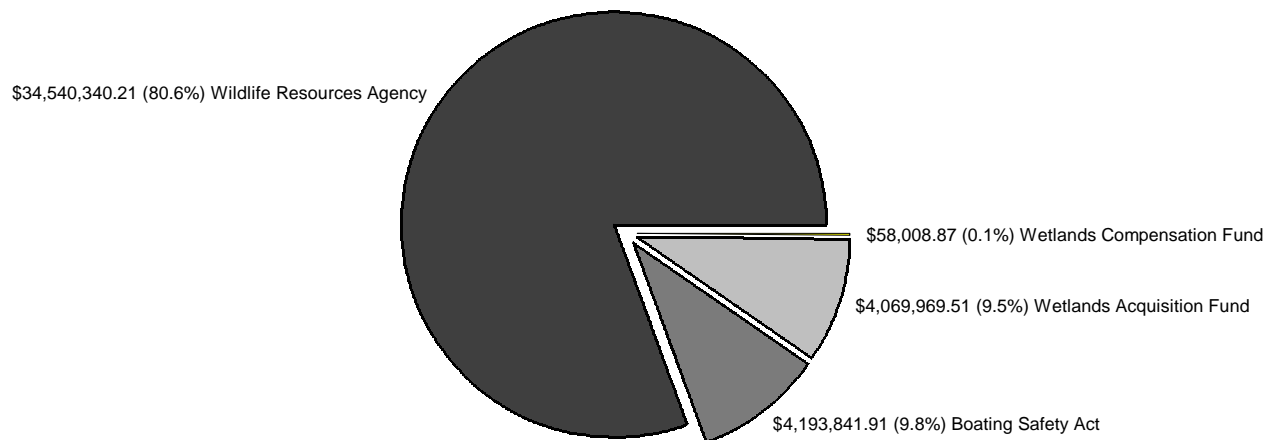
Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Tennessee Wildlife Resources Agency

Expenditures by Allotment & Division

Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Tennessee Wildlife Resources Agency